HOUSE OF COMMONS SESSION 1997-98

EDUCATION AND EMPLOYMENT COMMITTEE

Third Report

THE DEARING REPORT: SOME FUNDING ISSUES

VOLUME I

Report together with the
Proceedings of the Committee

Ordered by The House of Commons *to be printed*
2 December 1997

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The Committee consists of 17 Members. It has a quorum of five. Unless the House otherwise orders, all members nominated to the Committee continue to be members of it for the remainder of the Parliament.

The Committee has power:

(a) to send for persons, papers and records, to sit notwithstanding any adjournment of the House, to adjourn from place to place, and to report from time to time;

(b) to appoint specialist advisers either to supply information which is not readily available or to elucidate matters of complexity within the Committee's order of reference;

(c) to communicate to any other committee appointed under the same Standing Order, to the Committee of Public Accounts and to the Deregulation Committee its evidence and any other documents relating to matters of common interest;

(d) to meet concurrently with any other committee appointed under the same Standing Order for the purposes of deliberating, taking evidence, or considering draft reports.

The Committee has power to appoint two sub-committees and to report from time to time the minutes of evidence taken before them and their minutes of proceedings. The sub-committees have power to send for persons, papers and records, to sit notwithstanding any adjournment of the House, to adjourn from place to place to report from time to time their minutes of proceedings and to meet concurrently with any committee appointed under the same Standing Order or any sub-committee thereof for the purposes of deliberating or taking evidence. Each sub-committee has a quorum of three.

The membership of the Committee since its nomination on 14 July 1997 has been as follows:

Ms Candy Atherton
Charlotte Atkins
Mr Joe Benton
Mr Graham Brady
Yvette Cooper
Mr Cynog Dafis
Valerie Davey
Caroline Flint
Rt Hon Derek Foster
Mr Don Foster
Mr John Healey
Ms Margaret Hodge
Mrs Eleanor Laing
Judy Mallaber
Mrs Theresa May
Mr Nick St. Aubyn
Mr Gerry Steinberg

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TABLE OF CONTENTS

Page

CONTENTS OF THE REPORT

A INTRODUCTION . . . v
Structure of the Report . . . v
Future work of the Committee . . . v

B FUNDING ISSUES . . . vi
Provision of information by the Government . . . vi
The short-term funding of higher education . . . vi
Hypothecation of tuition fee revenue to higher and further education . . vii
The use of the Inland Revenue for repayment of student loans . . . vii
The level of the tuition fee contribution . . . viii

C THE TREATMENT OF STUDENT LOANS FOR PUBLIC EXPENDITURE PURPOSES . . . ix
Background . . . ix
Definitions . . . x
The argument for treating student loans differently . . . x
Could spending on student loans be removed from the PSBR? . . . xii
Would a change in treatment of student loans generate more money? . . xii
Other reasons for such a change . . . xiii
The impact of resource accounting . . . xiii
Changing the way student loans are funded . . . xiv

PROCEEDINGS OF THE COMMITTEE RELATING TO THE REPORT . . . xv

LIST OF WITNESSES . . . xxi

LIST OF APPENDICES TO THE MINUTES OF EVIDENCE . . . xxii

LIST OF UNPRINTED MEMORANDA . . . xxiii

Minutes of Evidence and Memoranda are published in Volume II

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The membership of the Committee since its appointment [illegible] is as follows:

Ms Candy Atherton	Mr Eric Forth
Charlotte Atkins	[illegible]
Mr Ian Bearne	Ms Margaret Hodge
Mr Graham Brady	Mrs Eleanor Laing
Yvette Cooper	Judy Mallaber
Mr Cynog Dafis	Mrs Theresa May
Valerie Davey	Mr Nick St. Aubyn
Caroline Flint	Mr Gerry Steinberg
Rt Hon Derek Foster	

The cost of preparing for publication the Shorthand Minutes of Evidence published with this Report was £[illegible]

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THIRD REPORT

The Dearing Report: some funding issues

The Education and Employment Committee has agreed to the following Report:

A INTRODUCTION

1. The report from the National Committee of Inquiry into Higher Education (the Dearing Report) and the Government's response to it represent a major challenge to the higher education system of this country. The Dearing Report affects every aspect of higher education provision and also has significant implications for all post-16 education. We thought it right for the Committee to take evidence on some aspects of the Dearing Report during the Summer Recess, given the importance of the issues involved and the speed with which the Government is taking forward its response to the Report. The public meetings we held during the Recess helped to ventilate the subject. We believe it was valuable to do so during the Government's consultation period on the Dearing Report and on lifelong learning more generally, in advance of the White Paper on Lifelong Learning expected to appear early in 1998.

2. It was clear that we could not hope to cover all the issues raised by the Report in this short space of time. Therefore, we concentrated on the funding arrangements proposed by both Dearing and the Government. The Government's decisions in this area will start to come into force in less than a year. They have therefore had a much more immediate and perceptible impact on universities, students and potential students than many of the other highly significant proposals in Dearing. We took oral evidence from the Secretary of State for Education and Employment, the National Union of Students, the Committee of Vice-Chancellors and Principals, officials of HM Treasury and the Office for National Statistics, Dr Nicholas Barr and Mr Iain Crawford, of the London School of Economics, and Dr Bill Robinson, of London Economics. We also received a number of written submissions. All the oral evidence and a selection of the written evidence is published in the companion volume to our Report.[1]

Structure of the Report

3. Our Report is divided into two main sections. In the first, we cover, very briefly, some issues arising from the Dearing agenda about which we wish to register our concerns at this stage. In the second, we focus on one particularly topical issue, on which discussions are currently taking place between the DfEE and HM Treasury. This is the way in which expenditure on student loans is treated by the Treasury for the purposes of public expenditure classification.

Future work of the Committee

4. The Government is shortly to publish a White Paper on Lifelong Learning which will take forward much of its response to the Dearing agenda. Some initial information is currently available about the impact of the Government's proposals for tuition fees and loans on attitudes towards participation in higher education. We recognise, however, that this information is very preliminary and that better information may be available in the New Year. During the course of our inquiry a number of issues relating to access were raised, such as the impact of the new arrangements for student finance on students in rural communities and on the propensity for students to attend higher education institutions away from home.[2] **Because the issue is so important, in the New Year we intend to start an inquiry into participation in all post-16 education, covering higher education, further education and continuing adult education.**

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[1]HC(97-98)241-II.

[2]See e.g QQ.58-65.

B FUNDING ISSUES

5. In this section, we raise a number of concerns regarding funding which have arisen during the inquiry and which we believe the Government should take account of as it develops its policy towards higher education. This does not claim to be an exhaustive list, but there is general agreement within the Committee that these are important issues which the Government should address.

Provision of information by the Government

6. The Government has yet to publish fully detailed information about many aspects of the arrangements for the introduction of tuition fee contributions and maintenance loans. **We expect the necessary detailed information on the new arrangements for student finance to be made available as soon as possible, for the benefit of those who are planning to enter higher education in the near future and their families. We intend to monitor the detailed arrangements for the scheme as they become clear.**

The short-term funding of higher education

7. The Dearing Committee estimated that higher education would require an additional £350 million in 1998-99 and £565 million in 1999-2000, and expressed concern that "the long term wellbeing of higher education should not be damaged by the needs of the short-term".[3] The CVCP argued that the expenditure cuts inherited from the previous government amounted to a reduction of 6.5 per cent.[4] The Secretary of State subsequently announced that an additional £165 million had been found for spending in 1998-99 for the higher and further education sectors.[5] This meant, according to the Secretary of State, that he had achieved "the 1 per cent efficiency gain that Dearing said was the absolute minimum to avoid major cuts in higher education next year".[6] The Chair of the CVCP agreed on this point, but told us that the additional money "makes almost no contribution to the access and infrastructure repair agendas ... there will be a cut of just 1 per cent, but it is absolutely clear that that leaves very little money indeed to pay for the Dearing agenda".[7]

8. This additional £165 million will not affect the position in 1999-2000. We have noted that the Dearing Report argued that additional money would have to be found for that year if higher education were not to be damaged in the long term. Mr Blunkett told us:

> "From April of the financial year 1999-2000 we will have to negotiate with the Treasury in a situation where the expenditure cap of the first two years of this Government will have reached its end. We will then be talking of the balance between future fee income and immediate needs as from April 1999. That is a debate still to be had."[8]

We welcome the Secretary of State's announcement of an extra £165m for higher and further education for 1998-9 and his subsequent announcement in November of an additional £83 million for further education.[9] We believe there is a case for the Government to grant additional support for higher education in 1999-2000, as it did for 1998-99. Higher education should not have to face an efficiency saving of more than one per cent in 1999-2000. Ministers have claimed that a net saving of about £100 million would accrue from the tuition fee contribution scheme in 1999-2000.[10] This will not be sufficient to meet the anticipated funding gap. Even so, we would expect that the income from fees should flow into higher and further education.

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[3] *Higher Education in the Learning Society*, p.2.

[4] Appendix 10.

[5] DfEE Press Release 289/97, 23.9.97.

[6] Q.210.

[7] QQ.69, 76-77.

[8] Q.211.

[9] DfEE press release 362/97, 12.11.97.

[10] Hansard, 31.7.97, cols 495-96 W.

Hypothecation of tuition fee revenue to higher and further education

9. The Dearing Report recommended that students should make a contribution towards the tuition costs of their courses, and that this should be a standard fee equivalent to 25 per cent of the average course cost. The Report proposed that students should be able to take out loans to cover the contribution cost, repayable once their earnings reached a specified level. The Report further recommended that such contributions made by graduates to their tuition fees should be "reserved for meeting the needs of higher education".[11] The CVCP endorsed this recommendation and told us that it would be "indefensible to expect present and future generation of students to contribute to fees without a direct improvement in the funding position of our universities".[12] The Secretary of State told us:

> "I am very clear about the importance of investing in further and higher education from the resources being released, which is why we use the term 'universities and colleges' ... Clearly, a greater proportion has to go into higher education ... to meet the immediate crisis and invest in competence, research capacity, better quality and, above all, to open up new access. Without these extra resources the opening up of access will be nil."[13]

10. We recognise that it is not possible for taxation revenue to be hypothecated to any particular area of public policy. **However, fee income is not taxation, and in our view, the proceeds from the tuition fee scheme should not be diverted from improving higher and further education.** There is an obvious overlap between the work done in universities and further education colleges in respect of lifelong learning, and clearly the Government will have to consider carefully the appropriate balance of funding for each sector. We will monitor with interest the Government's future spending decisions in respect of higher and further education.

11. Whatever decisions are taken about how any additional revenue is divided between different parts of post-16 education, there is always a danger that the Government could decide to reduce its funding to higher *and* further education in proportion to any additional funds released by the tuition fee scheme. **We urge the Secretary of State to ensure that any such move is resisted strongly.**

The use of the Inland Revenue for repayment of student loans

12. The Dearing Report examined several methods of collecting repayments from graduates and concluded that the Inland Revenue should be used as the principal route for their collection. The Report argued that the main advantages of this approach are that the Inland Revenue already has in place mechanisms for assessing income and securing payments from almost all the working population. Furthermore, "a system which is simple and efficient is far more likely to be acceptable to graduates and to reduce the risk of defaults".[14] The Secretary of State told us that he had "not ruled out the collection process being attached to the Inland Revenue". This approach, he said,

> "would eventually help people in terms of their repayments because they would see it as part of the normal process of contributing, as well as it being secure and administratively simpler than other schemes."[15]

Messrs Barr and Crawford also argued for using the Inland Revenue, or alternatively the National Insurance Contributions Scheme (NICS), partly because of "the very low default rates and high confidence that you will get most of the money back".[16] The Dearing Report,

[11] Recommendation 79, p.323.

[12] Appendix 10.

[13] Q.216.

[14] Paragraphs 21.43-21.49 and Recommendation 82.

[15] Q.251.

[16] Q.188.

however, rejected the NICS for the purpose as it would "introduce an unnecessary layer of administrative activity".[17]

13. The Teaching and Higher Education Bill [*Lords*], published on 26 November, makes provision for the loans to be recovered with the assistance of the Inland Revenue, via the PAYE scheme.[18] **We welcome this decision of the Government. We recommend that the Government accept the recommendation in the Dearing Report that the Inland Revenue be used as the principal route for the collection of loan repayments.**

The level of the tuition fee contribution

14. The Dearing Report suggested that all students make a flat-rate contribution to their tuition fees of "around 25 per cent of the average cost of higher education tuition". The Report also noted concerns that "it would be open to any government to increase unilaterally the proportion of tuition costs to be paid by graduates", as has happened in respect of similar schemes in Australia and New Zealand. With this in mind, the Report proposed the establishment of an independent committee to review any proposal to increase the proportion of tuition costs paid by students, and that any such increase be subject to a debate on an affirmative resolution in both Houses of Parliament.[19] The Government decided to set the fee at £1,000 per year, which is "roughly 25 per cent of the average cost of a course".[20]

15. Evidence echoed the concern about the future level of the fee expressed in the Dearing Report. For instance, the President of the National Union of Students told us:

> "We believe the breaching of the principle of free tuition opens the door to charges of a much higher level in future years. The evidence is very clear internationally with Australia, where a system of fee contribution was introduced which was abused by a successor government... Our opposition to fees, the reason we are so viciously opposed, is because it is the thin end of the wedge to other charges."[21]

16. The Secretary of State told us that:

> "I believe that for the longer term there is a debate to be had about ... whether an affirmative order of the House is sufficient to safeguard the interests of students in future. There is a balance between the responsibility of the individual and the responsibility of the nation. I am sure that the Committee will want to deliberate and make recommendations upon that. I am open to persuasion as to whether additional safeguards can be built in."[22]

The Teaching and Higher Education Bill provides that any increase above inflation should be subject to affirmative resolution by each House of Parliament. The measure of inflation used is defined as "such index of prices as may be specified" by regulations.[23] We are aware of the importance of creating safeguards to stop inappropriate increases in tuition fee contributions, and the need to balance these with the spending priorities of governments in the future. **We support the recommendation in the Dearing Report that an independent committee review any proposal to increase the proportion of tuition costs paid by students. However, we believe it should also review any increase in the actual amount of the fee, with the exception of uprating in line with inflation. Any increase in the proportion of tuition costs, or the amount of the fee, should be subject to a debate on an affirmative resolution in both Houses of Parliament, on the lines proposed in the Dearing Report. We would also expect the Secretary of State of the day to be prepared to appear before this Committee (or its successor) to defend any such proposal.**

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[17] Paragraph 21.43.

[18] HL Bill 47, Clause 16(4)(e).

[19] Paragraphs 20.75 and Recommendation 79.

[20] *Higher Education for the 21st Century*, DfEE, July 1997.

[21] Q.119.

[22] Q.231.

[23] HL Bill 47, Clause 16(5) and (6)).

17. We would make two other comments on this issue. The Government has chosen to introduce a £1,000 contribution, as representing "roughly" a quarter of the average course cost. Over time, with inflation, the £1,000 will come to represent a smaller and smaller proportion of the course cost. The Secretary of State told us there was "a debate to be had about whether we simply fix it at a percentage of the average".[24] **The Government should make it clear as soon as possible whether it intends to stick to the £1,000 fee or to "peg" the fee contribution at 25 per cent of the course cost.**

18. We also raised with the Secretary of State the potential danger that graduates repaying loans might be disadvantaged in applying for mortgages. He told us:

> "We need to discuss this with mortgage institutions and our own officials to ensure that the taking out of career development loans and the repayment programme under the new scheme does not disadvantage anyone. I will if necessary look at legislating on the point."[25]

We welcome the assurance given by the Secretary of State and urge him to take any necessary steps to ensure that graduates are not discriminated against in applying for mortgages on the grounds that they are paying off student loans.

C THE TREATMENT OF STUDENT LOANS FOR PUBLIC EXPENDITURE PURPOSES

Background

19. The Dearing Committee drew attention to what it regarded as a "fundamental problem with the Government providing loans to students", namely the way in which loans are treated in the national accounts. The Dearing Report states that the full cost to the Government of spending on student loans is treated as public expenditure in the year in which it is made; in other words, just as if the money had been spent on grants rather than loans. Repayments are subsequently treated as "negative public expenditure" and are scored as such in the accounts when they are repaid. The Report argues that the current accounting approach "misleads rather than informs", and recommends that the Government

> "looks urgently at alternative and internationally accepted approaches to national accounting which do not treat the repayable part of loans in the same way as grants".[26]

20. During our inquiry, we received evidence on this point from Dr Nicholas Barr and Mr Iain Crawford of the London School of Economics. They argued forcefully that a different treatment of expenditure on loans could yield a substantial annual sum for the Government to spend if it wished: "there is a pot of gold there which can be released by different accounting mechanisms".[27] This attractive proposition has naturally aroused a good deal of interest: is there really some "accounting wheeze" that would release funds rapidly for higher education? The whole issue is hedged round with technical argument about the system of national accounts used in the UK and the merits of different technical changes to them. We have tried to set out the principles of the argument as simply as possible.

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[24] Q.231.

[25] Q.250.

[26] *Higher Education in the Learning Society*, paragraphs 20.87-90 and Recommendation 80.

[27] Q.197.

Definitions

21. There are three measurements of public expenditure in use. General government expenditure (GGE) comprises current and capital expenditure as defined in the national accounts, plus net expenditure on certain financial assets — specifically net lending and net expenditure on company securities. It is the widest definition of public expenditure used by the Treasury. GGE in 1996-97 was £309 billion. The Treasury also uses a definition called GGE(X), which is GGE adjusted to exclude specific items such as privatisation proceeds and spending financed by National Lottery funds. (A Treasury official explained that spending financed by the Lottery was excluded primarily because it was self-financing, although he admitted that this was "a political decision ... you may call it arbitrary".)[28] Finally, the Treasury uses a further definition, known as the Public Expenditure Control Total, as the principal focus of public expenditure planning and control. The Control Total represents that part of GGE which the Government believes should be controlled directly; it therefore excludes items such as cyclical social security spending which are demand driven.[29] The Control Total represents about 85 per cent of GGE. In addition to these measures of expenditure, the Public Sector Borrowing Requirement (PSBR) measures the public sector's need to borrow to finance the difference between its expenditure and receipts. The Office for National Statistics (ONS) is responsible for the definition of the various sectors — public sector, general government, etc — and in making these definitions it follows international guidelines agreed by the United Nations and the European Union. There are no international guidelines on the definition of the borrowing requirement; this definition is the joint responsibility of the Treasury and the ONS. The Treasury is responsible for the definition of GGE(X) — that is, for defining the exclusions — and the Control Total.[30]

22. Different parts of the education system are treated differently for the purposes of the national accounts. For instance, grant-maintained schools can borrow against their assets: the money raised (and spent) does not count as public expenditure, although the repayments of such borrowing are made from public money (ie the schools' income from the Government). This is because grant-maintained schools are not classified as public sector bodies in the national accounts but as "private non-profit-making bodies", even though they are publicly funded and part of the maintained sector. For the same reason, borrowing by grant-maintained schools is not included in the PSBR.[31] (Government expenditure on grant-maintained schools *is* classified as public expenditure, although it appears in the local authorities' component of the Control Total.) Universities are also not within the public sector for accounting purposes, although they receive considerable amounts of public funding.

The argument for treating student loans differently

23. Messrs Barr and Crawford argue that, at present, spending on student loans is treated by the Treasury simply as spending in the year in which the loans are advanced, without taking account of any future repayment. The Treasury is, in their words, "assuming that every pound we lend to a student is written off; that all students are going to be struck down with some form of plague the day they graduate".[32] Treasury witnesses argued that technically, loans were not treated in the same way as grants, because lending was classified as a "financial transaction".[33] However, the Treasury's evidence also states that all lending by the Government, including student loans, forms part of the Control Total. Any borrowing to finance government spending, including spending on student loans, is reflected in the Public Sector Borrowing Requirement (PSBR).[34]

24. Messrs Barr and Crawford, supported by Dr Bill Robinson of London Economics, argued that spending on student loans should not be treated purely as expenditure because the

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[28] Q.341.

[29] See QQ.340-41.

[30] For more details, see written evidence from HM Treasury, Appendix 14, paragraphs 5, 11-16, and the *Financial Statement and Budget Report*, HC 85, July 1997, Chapter 2, Table 2.4 and Chapter 4.

[31] Hansard, 21.11.95, col. 46 W.

[32] Q.183.

[33] Q.319.

[34] Appendix 14, paragraphs 5 and 16.

greater part of the loans is likely to be repaid to the Government. In the words of Dr Robinson, only some of this lending is spending.[35] He argued that expenditure on student loans could properly be regarded as a form of investment.[36] We questioned him about the "slippery slope" argument — i.e., that if this point were conceded, many other worthy causes would plead for similar treatment. He believed this argument was weak, for several reasons: the total amount of money involved was not very large; the purpose of the expenditure was very clear; it was in line with Government policy; and investing in higher education brought a return in the long term. However, while he could not "immediately think of other areas where the argument could be used that this is lending, not spending", he added that "doubtless someone will come up with something to prove me wrong".[37]

25. Assuming that expenditure on student loans should not be treated in the same way as grants, the question then arises: how much of the money spent on student loans can be regarded purely as *expenditure* — that is, what proportion of its money is the Government not going to see again? Messrs Barr and Crawford drew attention to the position in New Zealand, where the authorities expect to recoup about 89 per cent of expenditure on student loans.[38] The repayment rate will depend both on factors within the Government's control (such as the repayment terms) and outside its control (such as how much money students end up earning). Dr Robinson argued that loans to students could present:

> "quite a good prospect, quite a good risk ... They will almost certainly in their lives be in the market for a house and will not be, therefore, the sort of people who would visibly want to besmirch their credit record by reneging on their student loans."[39]

The other element that needs to be taken into account is the effect of charging students a comparatively low rate of interest on the loans. This means in effect that the Government is subsidising the loans — the subsidy is the difference between the rate at which the Government borrows the money and that at which it lends it on to students.[40]

26. For the purposes of demonstrating how the argument runs, let us adopt a relatively conservative position and assume that 50 per cent of the money lent to students will be repaid and the remainder will be lost in bad debt and interest rate subsidy. Lending by the Student Loan Company to students is currently about £1 billion per year.[41] Under the Barr-Crawford thesis, therefore, £500 million would be regarded as spending and the other £500 million would be disregarded, allowing an additional £500 million to be spent without "public spending" going up.

27. The technicalities of how this re-classification might be achieved were discussed at some length during our evidence sessions with Messrs Barr and Crawford, Dr Robinson and HM Treasury and ONS officials. Messrs Barr and Crawford argued:

> "It would be open to the Treasury to include net lending to students in the X of GGE(X) ... Lending would be part of public expenditure as measured for EU purposes but would not be part of the national measure (the PSBR) which government seeks to control".[42]

(We enter our reservations about their reference to the PSBR in the next paragraph.) Dr Robinson was less concerned about the fine detail of the accounting methods used: "If the

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[35]Q.255.

[36]QQ.255, 275.

[37]QQ.288-290.

[38]Q.186 and Appendix 12, paragraph 6.

[39]Q.291.

[40]This point is discussed by Dr Robinson in his written evidence, Appendix 17.

[41]Q.186.

[42]Appendix 8, paragraph 101. See also Dr Nicholas Barr, *Public Money and Management Magazine*, July-September 1997, p. 35, where he argues that it is possible (and desirable) to "exclude net lending to students from GGE".

political decision is taken ... then I am sure the accounting devices can be found."[43] The main point is that it would appear to be possible, without breaching any international accounting guidelines, for Ministers to remove at least part of the spending on student loans from the Control Total, in the same way that certain other items are currently excluded.[44]

Could spending on student loans be removed from the PSBR?

28. We have noted in the previous paragraph that Messrs Barr and Crawford argued that borrowing to fund expenditure on student loans could be excluded from the PSBR. But this overlooks the point that, however the expenditure is classified within the public accounts, if it is raised by borrowing that borrowing will be reflected in the PSBR. As Dr Robinson put it, "I do not think you can get away from the fact that borrowing is borrowing." He added: "There is no accounting trick available to stop the PSBR going up".[45] Treasury officials made the same point:

> "There is no difference in the impact on the *borrowing requirement* [italics added] between a billion for grants to students and a billion in new loans because that lending is in the borrowing requirement and still has to be financed."[46]

In short, it seems to us that the reference by Messrs Barr and Crawford to the PSBR in their submission to the inquiry is something of a red herring. We believe the focus of any change in treatment would have to be on excluding recoverable expenditure on student loans from the Public Expenditure Control Total, the measure by which the Government assesses whether it is meeting its public expenditure targets. Treasury officials noted that "the definition of the control total is something for Treasury Ministers", and their decisions in this respect are not constrained by international accounting conventions.[47]

Would a change in treatment of student loans generate more money?

29. Messrs Barr and Crawford argue that, by changing the way in which spending on student loans is scored in the accounts, the Government would reduce the headline public spending level, and could therefore spend an additional sum, equivalent to the amount of the reduction, each year.[48] While they emphatically do not argue that this money would — or indeed should — be hypothecated to higher education,[49] others have drawn that conclusion, for instance the Committee of Vice Chancellors and Principals:

> "showing the net effect of the loans on public accounts rather than the total effect ... *would free up resources* [italics added]."[50]

Hence **the impression has been formed that a simple accounting change could be made which would generate more money for higher education. However, having examined the evidence, we do not think that this is the case**. Although student loans can be treated differently by the Treasury for expenditure definition purposes, as described above, such a change would not *in itself* raise any more money.[51] Where loans are made, the Government would have to finance them — either by taxation, borrowing or reducing spending elsewhere.

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[43]Q.255. See also Q.302.

[44]Treasury officials, Q.344.

[45]Q.298; Appendix 17.

[46]Q.321.

[47]Q.344 and Appendix 14, paragraphs 17-19.

[48]Appendix 8, Executive Summary and Annex 2.

[49]Q.197.

[50]Q.72.

[51]Mr Blunkett told us in this context: "I do not believe that there is an immediate pot of gold". (Q.213)

Other reasons for such a change

30. Is there any reason for advocating such a change if the "pot of gold" does not exist? We believe there is. It would send a clear signal, to use Dr Robinson's phrase, that loans to students are an *investment in the creation of human capital*.[52] Borrowing to finance such investment can be regarded as "good" borrowing for that reason, and also because — as discussed above — the Government seems likely to get most of it back over time. The change would *not* automatically mean that the Government spent more on education, but it would at least give the Government the flexibility to spend more money without exceeding its public expenditure target as expressed by the Control Total.[53] We have noted that any additional spending flexibility might not be hypothecated to higher education. However, if Ministers were to exclude the recoverable part of expenditure on student loans from the Public Expenditure Control Total on the grounds that it is investment, and should be treated as such, this could facilitate extra spending on tertiary education without the Government breaching its Public Expenditure Control Total. It could thus deal more effectively with the short-term funding crisis which we discussed above. For these reasons, **we recommend that the Government change the treatment of student loans for public expenditure purposes to reflect the fact that such spending is a form of investment, and that much of it will be repaid.**

The impact of resource accounting

31. During our inquiry witnesses raised the possible impact on the treatment of expenditure on student loans of the Government's introduction of resource accounting and budgeting. Resource accounting is the form of "accruals" accounting currently used in the private sector and local government, and which the Government is to implement for all public expenditure from 2001-02. Resource accounting differs from the cash accounting basis currently used by the Treasury. Under resource accounting a purchase made will figure in accounts not as a cash amount in a single year (as at present) but as a resource consumed over time. Treasury officials explained its potential impact on the classification of expenditure on student loans: "you would score ... what the real resource cost to the Government is when you make the loan".[54] Dr Robinson expanded the point:

> "What resource accounting does is to look at the net present value of any policy rather than its cash implications, and in this instance the important point about resource accounting is that it would score as spending only that part of the loan which was, if you like, the subsidy element in the spending."[55]

Dr Robinson argued that the financing of higher education was "a very suitable test bed" for resource accounting, as it would make clear that borrowing to finance student loans was in fact a matter of borrowing to finance *asset acquisition*. Using resource accounting would demonstrate to a "sceptical City audience" that such borrowing was not a fiscally irresponsible act.[56]

32. There is clearly a close relationship between our proposal in paragraph 29 and the possible treatment of student loans under resource accounting. In effect, we are proposing that a form of resource accounting be introduced for expenditure on student loans in advance of its full-scale introduction for the whole of Government spending in 2001-02.

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[52] Appendix 17.

[53] Of course, as Dr Robinson pointed out, any such decision to borrow and spend more would have to be taken in the light of the prevailing economic climate. (Appendix 17)

[54] Q.356.

[55] Q.255.

[56] Appendix 17.

Changing the way student loans are funded

33. It would be possible for the universities themselves to take on the responsibility for financing student loans. The universities could establish a not-for-profit trust which would borrow money in the markets (against the universities' assets) and lend it on to students. As we have noted (paragraph 21 above), because universities are not classed as being in the public sector, spending on the loans would not count as public expenditure, with the exception that the Government could underwrite the bad debt provision. The security this would give to the lenders would help to ensure that they would be content to charge the universities a lower rate of interest than would otherwise be the case. There are two advantages for the Government in such an approach: the initial funding for the loans is found from outside public funds, and the cost of meeting the bad debt provision would be many years down the line, assuming that (as under the Government's current plans) repayments were scheduled over 20 or 25 years. This idea is put forward simply as a proposal for debate within Government and the higher education sector. We have not had time so far in our inquiry to examine all the implications of such a change, although we have touched on some of these issues in evidence, e.g. in the questioning of Dr Robinson[57]. Messrs Barr and Crawford have also discussed similar proposals in their evidence to the Dearing Committee,[58] and a Member of the Committee has submitted a paper on this subject.[59] **We will take further evidence on the issue in the New Year, and will seek comment in advance from interested parties.**

[57]QQ.268, 255, 286. Treasury officials also commented on the question of interest rate levels. (Q.353)

[58]Evidence to the National Committee of Inquiry, paragraphs 55-61.

[59]See Appendix 15.

PROCEEDINGS OF THE COMMITTEE RELATING TO THE REPORT

Tuesday 2 December 1997

Members present:

Candy Atherton
Charlotte Atkins
Mr Joe Benton
Yvette Cooper
Valerie Davey
Caroline Flint
Rt Hon Derek Foster
Mr Don Foster
Mr John Healey
Ms Margaret Hodge
Judy Mallaber
Mrs Theresa May
Mr Nick St Aubyn
Mr Gerry Steinberg

Ms Margaret Hodge was called to the Chair.

Draft Report by Ms Hodge [The Dearing Report: some funding issues], proposed by the Chairman, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraph 1 read, amended and agreed to.

Paragraphs 2 and 3 read and agreed to.

A paragraph—(*Mrs Theresa May*)—brought up and read, as follows:

"**Access and the Maintenance Grant**

The Committee is very concerned that the Government has decided to disregard Dearing's recommendation that the Maintenance Grant should be preserved in order to protect and encourage access. The decision to abolish the grant at the same time as introducing tuition fees will result in a massive and sudden increase in student debt. **The Committee believes that the abolition of maintenance grants will deter people from participating in higher education and will reduce access for young people from lower income backgrounds. The Committee recommends that the Government look again at the question of access and follow Dearing's recommendation to retain the maintenance grant**."

Ordered, That the Paragraph be read a second time.

Amendment proposed, in line 5, leave out from "**grants**" to the end of the new paragraph and insert "**and the introduction of tuition fees will deter people from participating in higher education and will reduce access for young people from lower income backgrounds. The Committee recommends that the Government look again at the question of access**".—(*Mr Gerry Steinberg*.)

Question put, That the Amendment be made.

The Committee divided.

Ayes, 5	Noes, 7
Mr Joe Benton	Candy Atherton
Mr Don Foster	Charlotte Atkins
Mrs Theresa May	Yvette Cooper
Mr Nick St Aubyn	Valerie Davey
Mr Gerry Steinberg	Rt Hon Derek Foster
	Mr John Healey
	Judy Mallaber

Question put, That the Paragraph be inserted in the Report.

The Committee divided.

Ayes, 2	Noes, 9
Mrs Theresa May	Candy Atherton
Mr Nick St Aubyn	Charlotte Atkins
	Mr Joe Benton
	Yvette Cooper
	Valerie Davey
	Rt Hon Derek Foster
	Mr Don Foster
	Mr John Healey
	Judy Mallaber

Paragraphs 4 and 5 read, amended and agreed to.

Paragraph 6 read, as follows:

> "The Government has yet to publish fully detailed information about many aspects of the arrangements for the introduction of tuition fee contributions and maintenance loans. **We expect the necessary information to be made available as soon as possible, for the benefit of those who are planning to enter higher education in the near future and their families. We intend to monitor the detailed arrangements for the scheme as they become clear."**

Amendment proposed, in line 2, after the word "loans" to insert: "The uncertainty that has been created by this lack of information reflects the speed of the Government's response to the Dearing Report. The move to maintenance loans was not recommended by Dearing, and we remain to be convinced that it was necessary both to introduce tuition fees and abolish the maintenance grant. In particular, as stated above in paragraph 4, it has not been possible in the timescale for us to assess properly the impact of these two policy changes on participation in higher education. We will be returning to this issue in our further study in the New Year."—(*Mrs Theresa May*.)

Question put, That the Amendment be made.

The Committee divided.

Ayes, 4	Noes, 9
Mr Don Foster	Candy Atherton
Mrs Theresa May	Charlotte Atkins
Mr Nick St Aubyn	Mr Joe Benton
Mr Gerry Steinberg	Yvette Cooper
	Valerie Davey
	Caroline Flint
	Rt Hon Derek Foster
	Mr John Healey
	Judy Mallaber

Amendments made.

Paragraph, as amended, agreed to.

Paragraph 7 read and agreed to.

Paragraph 8 read, as follows:

"This additional £165 million will not affect the position in 1999-2000. We have noted that the Dearing Report argued that additional money would have to be found for that year if higher education were not to be damaged in the long term. Mr Blunkett told us:

> 'From April of the financial year 1999-2000 we will have to negotiate with the Treasury in a situation where the expenditure cap of the first two years of this Government will have reached its end. We will then be talking of the balance between future fee income and immediate needs as from April 1999. That is a debate still to be had.'

We welcome the Secretary of State's announcement of an extra £165m for higher and further education for 1998-9 and his subsequent announcement in November of an additional £83 million for further education. We believe there is a case for the Government to grant additional support for higher education in 1999-2000, as it did for 1998-99. Higher education should not have to face an efficiency saving of more than one per cent in 1999-2000. Ministers have claimed that a net saving of about £100 million would accrue from the tuition fee contribution scheme in 1999-2000. This will not be sufficient to meet the anticipated funding gap. Even so, we would expect that an appropriate proportion of the income from fees should flow into higher and further education."

An Amendment made.

Another Amendment proposed, in line 17, to leave out the words "and further".—(*Mrs Theresa May.*)

Question put, That the Amendment be made.

The Committee divided.

Ayes, 4	Noes, 9
Mr Graham Brady	Candy Atherton
Mr Don Foster	Charlotte Atkins
Mrs Theresa May	Mr Joe Benton
Mr Nick St Aubyn	Yvette Cooper
	Valerie Davey
	Caroline Flint
	Rt Hon Derek Foster
	Judy Mallaber
	Mr Gerry Steinberg

Paragraph, as amended, agreed to.

Paragraph 9 read and agreed to.

Paragraph 10 read, as follows:

> "We recognise that it is not possible for taxation revenue to be hypothecated to any particular area of public policy. **However, fee income is not taxation, and in our view, the proceeds from the tuition fee scheme should not be diverted from improving higher and further education.** There is an obvious overlap between the work done in universities and further education colleges in respect of lifelong learning, and clearly the Government will have to consider carefully the appropriate balance of funding for each sector. We will monitor with interest the Government's future spending decisions in respect of higher and further education."

Amendment proposed, in line 2, to leave out from "policy" to "There" in line 4 and insert: "Fee income, however, is not taxation and we support the recommendation in the Dearing Report that if students are to be asked to contribute to their tuition fees the income from those fees should go into higher education (see above, para 9). **We recommend, therefore, that the proceeds from the tuition fee scheme should not be diverted from improving higher education.**"—*(Mrs Theresa May.)*

Question put, That the Amendment be made.

The Committee divided.

Ayes, 4	Noes, 9
Mr Graham Brady	Candy Atherton
Mr Don Foster	Charlotte Atkins
Mrs Theresa May	Mr Joe Benton
Mr Nick St Aubyn	Yvette Cooper
	Valerie Davey
	Caroline Flint
	Rt Hon Derek Foster
	Judy Mallaber
	Mr Gerry Steinberg

Another Amendment proposed, in line 2, to leave out the words from "**view**" to the end of the paragraph and insert: "**tuition fees must go directly to the benefit of the institution where the student is studying. Any scheme which redistributes fee revenue to other institutions would constitute a new form of taxation and would be unacceptable**".—*(Mr Graham Brady.)*

Question put, That the Amendment be made.

The Committee divided.

Ayes, 3	Noes, 10
Mr Graham Brady	Candy Atherton
Mrs Theresa May	Charlotte Atkins
Mr Nick St Aubyn	Mr Joe Benton
	Yvette Cooper
	Valerie Davey
	Caroline Flint
	Rt Hon Derek Foster
	Mr Don Foster
	Judy Mallaber
	Mr Gerry Steinberg

Paragraph agreed to.

Paragraphs 11 and 12 read and agreed to.

Paragraph 13 read, as follows:

> "**We recommend that the Government accept the recommendation in the Dearing Report that the Inland Revenue be used as the principal route for the collection of loan repayments.**"

Amendment proposed, in line 1, to leave out the words "**We recommend that the Government**" and insert: "The Teaching and Higher Education Bill, published on 26 November, makes provision for the loans to be received with the assistance of the Inland Revenue, via the PAYE scheme (clause 16(4)(e)). **We welcome the decision of the Government to**".—(*Ms Margaret Hodge*.)

Proposed Amendment amended, in line 3, by leaving out the word "received" and inserting the word "recovered".—(*Ms Margaret Hodge*.)

Proposed Amendment further amended, in line 4, by leaving out the words "**the decision of the Government to**" and inserting the words "**this decision of the Government**".—(*Mrs Theresa May*.)

Another Amendment proposed to the proposed Amendment, at the end, to add the words: "**We recommend that the Government**".—(*Ms Margaret Hodge*.)

Question put, That the Amendment be made.

The Committee divided.

Ayes, 11	Noes, 3
Candy Atherton	Mr Graham Brady
Charlotte Atkins	Mrs Theresa May
Mr Joe Benton	Mr Nick St Aubyn
Yvette Cooper	
Valerie Davey	
Caroline Flint	
Rt Hon Derek Foster	
Mr Don Foster	
Mr John Healey	
Judy Mallaber	
Mr Gerry Steinberg	

Proposed Amendment, as amended, agreed to.

Paragraph, as amended, agreed to.

Paragraphs 14 and 15 read and agreed to.

Paragraph 16 read, as follows:

"The Secretary of State told us that:

> 'I believe that for the longer term there is a debate to be had about...whether an affirmative order of the House is sufficient to safeguard the interests of students in future. There is a balance between the responsibility of the individual and the responsibility of the nation. I am sure that the Committee will want to deliberate and made recommendations upon that. I am open to persuasion as to whether additional safeguards can be built in.'

We are aware of the importance of creating safeguards to stop inappropriate increases in tuition fee contributions, and the need to balance these with the spending priorities of governments in the future. **We support the recommendation in the Dearing Report that an independent committee review any proposal to increase the proportion of tuition costs paid by students. However, we believe it should also review any increase in the actual amount of the fee, with the exception of uprating in line with inflation. Any increase in the proportion of tuition costs, or the amount of the fee, should be subject to a debate on an affirmative resolution in both Houses of Parliament, on the lines proposed in the Dearing Report. We would also expect the Secretary of State of the day to be prepared to appear before this Committee (or its successor) to defend any such proposal."**

An Amendment made.

Another Amendment proposed, in line 14, after the word "**fee**", to insert "**or the selection of the measure of inflation to be used**".—(*Mr Don Foster.*)

The Committee divided.

Ayes, 5	Noes, 9
Mr Graham Brady	Candy Atherton
Yvette Cooper	Charlotte Atkins
Mr Don Foster	Mr Joe Benton
Mrs Theresa May	Valerie Davey
Mr Nick St Aubyn	Caroline Flint
	Rt Hon Derek Foster
	Mr John Healey
	Judy Mallaber
	Mr Gerry Steinberg

Paragraph, as amended, agreed to.

Paragraphs 17 to 33 read and agreed to.

Resolved, That the Report, as amended, be the Third Report of the Committee to the House.

Ordered, That the Chairman do make the Report to the House.

Several Papers were ordered to be appended to the Minutes of Evidence.

Ordered, That the Appendices to the Minutes of Evidence taken before the Committee be reported to the House.—(*The Chairman.*)

Several Papers were ordered to be reported to the House.

LIST OF WITNESSES

Page

Thursday 31 July 1997

NATIONAL COMMITTEE OF INQUIRY INTO HIGHER EDUCATION

Sir Ron Dearing and Mrs Shirley Trundle 1

Wednesday 24 September 1997

[morning meeting]

COMMITTEE OF VICE-CHANCELLORS AND PRINCIPALS

Professor Martin Harris, Professor John Tarrant
Professor Christine King and Professor Janet Finch 15

NATIONAL UNION OF STUDENTS

Mr Douglas Trainer, Mr Luke Bruce and Mr Lee Findell 25

Wednesday 24 September 1997

[afternoon meeting]

LONDON SCHOOL OF ECONOMICS AND POLITICAL SCIENCE

Dr Nicholas Barr and Mr Iain Crawford 35

DEPARTMENT FOR EDUCATION AND EMPLOYMENT

Rt Hon David Blunkett MP and Mr Tony Clark 44

Wednesday 15 October 1997

LONDON ECONOMICS

Dr Bill Robinson 53

HM TREASURY

Mr Allen Ritchie and Mr Peter Kane 61

OFFICE FOR NATIONAL STATISTICS

Mr Jeff Golland 61

LIST OF APPENDICES TO THE MINUTES OF EVIDENCE

No.		*Page*
1.	Memorandum from the NASUWT	71
2.	Memorandum from the Chartered Society of Physiotherapy	71
3.	Memorandum from the Biochemical Society	73
4.	Memorandum from Scottish University Students	75
5.	Memorandum from Mr Richard Pearson, Institute for Employment Studies	81
6.	Memorandum from the Joint Education and Training Policy Committee of the Engineering Employers' Federation and the Engineering and Marine Training Authority	84
7.	Memorandum from De Montfort University	87
8.	Memorandum from Dr Nicholas Barr and Mr Iain Crawford	88
9.	Memorandum from the Institute of Physics	105
10.	Memorandum from the Committee of Vice-Chancellors and Principals	106
11.	Memorandum from the National Union of Students	111
12.	Supplementary memorandum from Dr Nicholas Barr	119
13.	Memorandum from Mr Quentin Thompson	122
14.	Memorandum from HM Treasury	123
15.	Paper from Mr Nick St Aubyn MP	125
16.	Memorandum from the Union of Brunel Students	127
17.	Memorandum from Dr Bill Robinson	133
18.	Memorandum from the Open University	134

UNPRINTED MEMORANDA

Additional memoranda have been received by the following and have been reported to the House, but to save printing costs they have not been printed. Copies have been placed in the House of Commons Library where they may be inspected by Members. Other copies are in the Record Office, House of Lords, and are available to the public for inspection. Requests for inspection should be addressed to the Record Office, House of Lords, London, SW1A 0PW. (Tel 0171-219 3074). Hours of inspection are from 9.30 am to 5.00 pm on Mondays to Fridays.

1. Mr M J Alexander
2. Skill National Bureau for Students with Disabilities
3. NATFHE
4. Association of University Teachers
5. Mr Keith Turner
6. British Dental Association
7. Coalition of Modern Universities
8. The Open University
9. The School of the Science of Acting
10. The Royal Society

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